

SECTION

1

READING STUDY GUIDE WITH ADDITIONAL SUPPORT

Introduction to Economic Systems**Before You Learned**

Basic economic questions each society answers include: What will be produced? How will it be produced? For whom will it be produced?

Now You Will Learn

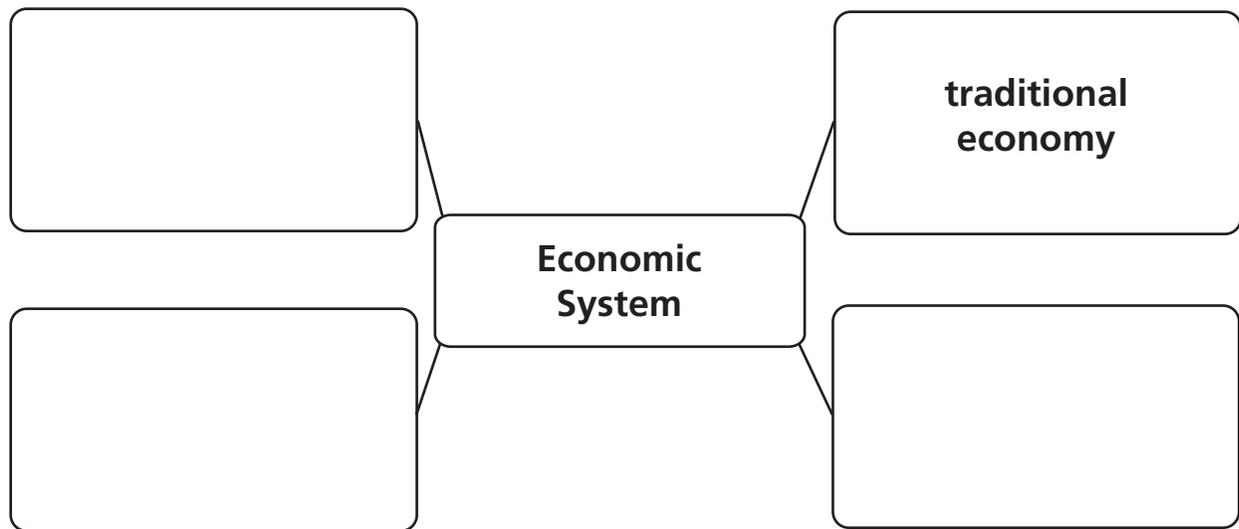
The three types of economic systems each provide different answers to the basic economic questions.

Economic Terms

- **economic system:** The way a society uses resources to satisfy people's wants
- **traditional economy:** An economic system in which people produce and distribute goods according to customs handed down from generation to generation
- **command economy:** An economic system in which the government makes all important economic decisions
- **market economy:** An economic system in which interactions between consumers and producers drive the economy

As You Read

Take notes to help you understand the characteristics of the three main economic systems.

**Types of Economic Systems**

All societies have to answer the following economic questions: What will be produced? How will it be produced? For whom will it be produced? To answer these questions, every society uses one of three main types of economic systems. In a traditional economy, the ways to answer questions about production are based on customs that have been handed

down for generations. In a command economy, government officials make all the decisions about production, based on what they perceive are the most important national needs. The government usually also owns the means of production, including factories, mines, and all other major resources. In a market economy, individual choice and voluntary exchange direct decisions about production. Consumers

INTRODUCTION TO ECONOMIC SYSTEMS, *CONTINUED*

choose the products and services they want; the producers of these goods and services make money. In this way, interactions between consumers and producers guide the economy.

1. How does a traditional economic system answer economic questions?

Characteristics of Traditional Economies

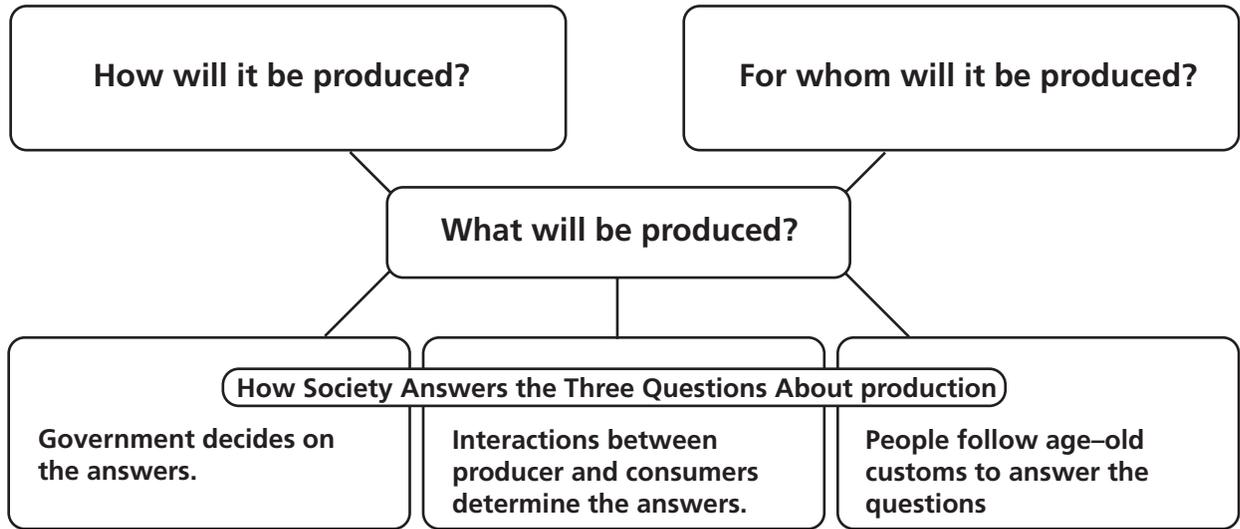
In traditional economies, the focus is on survival. Since decisions are made based on custom, the level of conflict about who does what is low. However, people are not always well suited to the economic roles they are supposed to fulfill. This means that traditional economies can be less productive than economies in which people have more choices. However, because of modern communication systems, most people in traditional economies have some knowledge of the world outside their community. Many people in traditional communities have begun to make changes, adopting some features of market economies.

2. Why have some traditional economies begun to change?

INTRODUCTION TO ECONOMIC SYSTEMS, *CONTINUED*

APPLICATION

Mark It Up!



- 3. Reread your notes on “Types of Economic Systems.” **Highlight** the characteristics of each type of system.
- 4. **Identify** and **label** each of the economic systems on the diagram.
- 5. **List** the three basic economic questions all societies must answer. **Number** the question that any society has to answer first with the numeral 1.

- 6. Explain how the basic economic questions are answered in a market economy.

- 7. Imagine you work in a factory that produces several types of bicycles. A county bureaucrat delivers a report listing numbers, types, and prices of bicycles the factory should make for the upcoming season. Name the kind of economic system this is most likely to be. Explain your answer.
